# Senate Ad Hoc Committee on Education Funding Formulas

### 2002 Annual Report

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### **Table of Contents**

I.	Committee Overview & Recommendations of 2002 Annual Report	Attachment A
II.	Addendum Report to the 2002 Annual Report	Attachment B
III.	Charge of the Committee & Letter of Appointment	Attachment C
VI.	Agenda & Minutes for Meeting, October 17, 2001	Attachment D
v.	Agenda & Minutes for Meeting, November 7, 2001	Attachment E
VI.	Agenda & Minutes for Meeting, December 3, 2001	Attachment F
VII.	Agenda & Minutes for Meeting, January 8, 2002	Attachment G

All materials submitted to the Committee and tapes of the meetings are on file in the Senate Resource Center.

Attachment A

### SENATE AD HOC COMMITTEE ON EDUCATION FUNDING FORMULAS 2002 ANNUAL REPORT

#### **MEMBERS:**

Senator Edward Cirillo, Chairman

Senator Ruth Solomon, Legislative Member

Ms. Louise Houseworth, Associate Executive Director for Business & Finance, Arizona Board of Regents

Mr. Michael Hunter, Vice President, Arizona Tax Research Association

Ms. Kristen Jordison, Executive Director, Arizona State Board for Charter Schools

Dr. Stephen Lawton, Parent Representative

Ms. Mary Jo Saiz, Business Manager, State Board for Community Colleges

Mr. Scott Thompson, Associate Superintendent for Finance, Department of Education for Superintendent of Public Instruction Jaime Molera

#### **ESTABLISHMENT:**

The Committee was established by a Senate presidential appointment on August 6, 2001.

### **COMMITTEE CHARGE:**

To examine the funding formulas for K-12, community colleges and universities and make recommendations for improving the education funding formulas.

### **REQUIREMENTS:**

Submit a report of its findings and recommendations to the Governor, the President of the Senate, and the Speaker of the House of Representatives and provide a copy of the report to the Secretary of the State and the Director of the Arizona State Library, Archives and Public Records by January 15, 2002.

#### **TERMINATION:**

The Committee's initial repeal date of January 1, 2002 was extended to January 11, 2002.

### **PUBLIC MEETINGS:**

The Senate Ad hoc Committee on Education Funding Formulas held four public meetings. Proceedings of these meetings were recorded for the public and minutes, attachments and/or tapes are on file in the Senate Resource Center.

Edu	cation Funding Formulas Committee Meetings
	October 17, 2001, Minutes-Attachment
	November 7, 2001, Minutes-Attachment
	December 3, 2001, Minutes-Attachment
	January 8, 2002, Minutes-Attachment

### REPORT AND RECOMMENDATIONS:

The Senate Ad Hoc Committee on Education Funding Formulas approved the following recommendations after hearing numerous presentations from education funding experts and completing its deliberations during the legislative interim period of 2001.

#### K-12

Recommendations to the State Board of Education:

- Examine further simplification of the K-12 maintenance and operations (M&O) budget to include funding categories such as classroom, support and administration. Establish better reporting of expenditures made by school districts and charter schools and include in the reporting the financial sources used for expenditures.
- Ensure the fundamentals of Arizona's equalized M&O funding remain in tact.
- Distinguish between and clarify funding categories that are appropriately funded through pupil weights and those that would best be funded through targeted grants or census-based funding.
- Continue efforts to ensure the proper accounting of student counts via the Student Accountability Information System (SAIS).
  - 1. Examine the practice of periodic State audits of K-12 student counts and reform areas of statute that result in any redundant counting of students.
  - 2. Examine funding linked with student academic results and program effectiveness.
  - 3. Maximize funding directed to classroom expenditures.

### **Community Colleges**

- Encourage community college districts to use existing options to address expenditure limits as well as pursue other options such as a constitutional change to provide for an alternative expenditure limit.
- Audit the current extent of personal interest courses and review the State's obligation for funding personal interest courses.

### Universities

- Fully fund the existing 22:1 enrollment growth formula.
- Fully fund inflation for the continuation budget.
- Examine establishing a minimum rate for building renewal.

### General

- Study the problem of expenditure capacities and start-up funding for both community colleges and universities.
- Adopt a consistent funding approach within the continuation budget for mature campuses (formula or otherwise) based on analysis of the marketplace in which the universities must successfully compete.
- Investigate the quest for establishing consistency in any "hold harmless" provisions that reflect student counts so that the K-12, community college and university systems are under similar, if any, "hold harmless" provisions. Consider financing for student counts based on a "rolling average" approach for K-12, community colleges and universities.
- Continue efforts to create a seamless educational system between the transition from the K-12 system to community colleges and universities.

Attachment B

### 2002 ADDENDUM TO ANNUAL REPORT January 23, 2002

The Report of the Ad Hoc Committee on Education Funding Formulas, dated January 15, 2002, contains two items of considerable importance to Arizona's community colleges that require review. A meeting on January 18, 2002 involving Senator Cirillo and various community college representatives resulted in an agreement to include the following clarifications to the report's recommendations.

- The current recommendation reads "Audit the current extent of personal interest courses and review the State's obligation for funding personal interest courses". The proposed language below aligns with the role the State Board of Directors for Community Colleges of Arizona currently has in setting requirements for credit and non-credit courses under rule R7-1-702:
  - "Ensure that the distinction between credit and non-credit courses be observed".
- A.R.S. §15-1464 currently provides for inflation and enrollment growth in the community college funding formula. An additional recommendation to the report would be:
  - "Fully fund inflation and enrollment growth per A.R.S. §15-1464".

### Submitted by:

Mary Jo Saiz

Member, Senate Ad Hoc Committee on Education Funding Formulas

In conjunction with:

State Board of Directors for Community Colleges of Arizona Arizona Community College Association Arizona Community College Presidents' Council Attachment

Randall Gnant President



Forty-fifth Legislature

### Arizona State Senate

August 6, 2001

The Honorable Edward Cirillo Arizona State Senate 1700 West Washington Phoenix, AZ 85007

Dear Senator Cirillo:

I am pleased to inform you that I have created the Senate Ad Hoc Committee on Education Funding Formulas and am appointing you to serve as Chair. The Committee is in effect August 6, 2001 and is repealed from and after December 31, 2001.

The purpose of the Committee is to examine the funding formulas for K-12, community colleges and universities and make recommendations for improving the education funding formulas. The Committee shall submit a written report of its findings and recommendations to the Governor, the President of the Senate, and the Speaker of the House of Representatives and provide a copy of the report to the Secretary of the State and the Director of the Arizona State Library, Archives and Public Records by December 15, 2001. The Committee shall submit its report on or before December 15, 2001.

The members of the Committee are:

Senator Cirillo, Chair Senator Solomon

Ms. Louis Houseworth, Arizona Board of Regents

Mr. Michael Hunter, Arizona Tax Research Association

Ms. Kristen Jordison, Arizona State Board for Charter Schools

Mr. Jaime Molera, Superintendent of Public Instruction, Department of Education

Ms. Mary Jo Saiz, State Board of Directors for Community Colleges of Arizona

Thank you for your willingness to serve on this Committee.

Sincerely,

Randall Gnant

President of the Senate

RG:rl

cc: Representative Jim Weiers, Speaker of the House of Representatives Senator Jack A. Brown, Senate Floor Leader Mindy Sanders, House Majority Staff Kimberly Yee, Senate Research Staff Attachment D

### **REVISION 3**

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**REVISION 3** 

### **ARIZONA STATE LEGISLATURE**

### OPEN TO THE PUBLIC

### Senate Ad Hoc Committee on Education Funding Formulas

Date:

Wednesday, October 17, 2001

→ Time:

1:30 p.m. to 3:00 p.m.

→ Place:

**Senate Hearing Room 1** 

### **AGENDA**

- Call to Order and Introductions
- 2. Review Charge of the Committee
- 3. Presentation of Education Funding Formulas
  - Joint Legislative Budget Committee Staff
- 4. Discussion
- 5. Public Testimony
- 6. Outline Objectives
- 7. Adjourn

### Members:

Senator Edward Cirillo, Chair

Senator Ruth Solomon, Member

Ms. Louis Houseworth, Arizona Board of Regents

Mr. Michael Hunter, Arizona Tax Research Association

Ms. Kristen Jordison, Arizona State Board for Charter Schools

Dr. Stephen Lawton, Parent Representative

Mr. Jaime Molera, Superintendent of Public Instruction, Department of Education

Ms. Mary Jo Saiz, State Board of Directors for Community Colleges of Arizona

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### ARIZONA STATE LEGISLATURE

### SENATE AD HOC STUDY COMMITTEE ON EDUCATION FUNDING FORMULAS

### Minutes of the Meeting Wednesday, October 17, 2001 – 1:30 P.M. Senate Hearing Room 1

#### **Members Present:**

Senator Edward Cirillo, Chair Senator Ruth Solomon Louise Houseworth Michael Hunter Dr. Stephen Lawton Scott Thompson (for Jaime Molera) Mary Jo Saiz Kristen Jordison

#### Staff:

Kimberly Yee, Education Analyst

Senator Cirillo called the meeting to order at 1:32 p.m., and attendance was noted. Introductions of Committee members took place.

### **Opening Remarks**

Senator Cirillo stated that this is the first meeting of the Committee, and reviewed the charge to the members. He commented that many people have voiced concerns that perhaps this function should not take place because of the budget problems. However, he said his initial purpose in establishing the Committee did not center around the budget. He pointed out the education formulas were somewhat outdated and he felt it was appropriate to review the formulas and to consider items such as the establishment of new universities or community colleges. He said the Committee's purpose is different than the efforts being taken with respect to the budget.

Senator Solomon stated she agreed with the comments of Senator Cirillo that it is an appropriate time to review the manner in which funding is allocated for education.

Steve Schimpp, Staff, Joint Legislative Budget Committee (JLBC), distributed a handout entitled "K-12 Equalization Funding Formula" for school districts and charter schools (Attachment A). He pointed out that the school district formula is divided into the following segments:

- Base Support Level (BSL)
  - Approximately 85% of the money is included in the BSL.
- - TSL represents 5% of funding total.
- Capital Outlay Revenue Limit (CORL)
- Soft Capital

Mr. Schimpp explained that the charter schools funding formula consists of the following:

- BSL
- Additional Assistance

He explained the differences between the school districts and charter schools funding formulas. He noted that since charter schools are not taxing jurisdiction, they are unable to generate local share funding. Therefore, funding entitled to charter schools under the formula is derived from the State.

Senator Cirillo asked whether it would be fair to say that the additional assistance for charter schools equates to the transportation support level, capital outlay revenue limit and soft capital level for the non-charter schools. Mr. Schimpp responded sometimes that issue becomes contentious. He explained that one of the reasons it may include more than the amount listed is because in the Students First program, five units of money were rolled together. He said in addition to the three mentioned, there was a segment called "additional capital assistance" which was a part of the former "assistance to build classrooms program." He commented that program was eliminated for school districts, but the charter money remained in statute. He mentioned another segment was added in exchange for charter schools being omitted from the Students First program.

Senator Cirillo stated if the goal is to simplify the formulas, it might be a good idea to move toward the charter schools formula for the other schools. He said one of the major problems with the entire system is the weighted student count, and would like to pursue the simplification of that issue.

Senator Solomon asked whether it is fair to note that the reason the teacher experience index (TEI) in the base support level in schools districts is not included under charter schools is due to the fact that the same qualifications are not required for charter schools. Mr. Schimpp responded he was not involved in those discussions, but it could have been the rationale. Senator Solomon asked whether federal monies are available for the School Facilities Board that could be used for charter and private schools for certain construction purposes. Mr. Schimpp replied he believes there may be federal money for construction, and indicated that Ms. Jordison may be able to answer that question. Senator Solomon asked whether \$15 million is available this year. Ms. Jordison replied that she is not aware of that particular figure. She said she has been working with John Arnold of the School Facilities Board, however, the details of any such funds have not been made available to date. Senator Cirillo asked if further information could be provided at the next meeting.

Dr. Lawton asked Mr. Schimpp to clarify the percentages of funds for the school districts segments. Mr. Schimpp responded the calculations are as follows:

- 85% for BSL
- 4% for TSL
- 6% for CORL

### • 5% for soft capital

Dr. Lawton asked whether the TEI is utilized only in cases of a more experienced staff. Mr. Schimpp responded that is correct. He said the TEI is not allowed to "go negative," therefore, the minimum TEI that a district is allowed is 1.0%.

**Debbie Johnston, Director, Senate Research,** stated that the JLBC staff member for community colleges is not available, therefore, she would be making the presentation regarding university funding formulas. She distributed a handout entitled "Community College Funding" (Attachment B) and indicated that the three types of funding include:

- · Local, federal, and private
- State formula
- Proposition 301

Ms. Johnston stated that included in Attachment B is a breakdown of sources of funds containing a general overview of revenues. Also included in the packet is a chart entitled "Assessed Valuation & Tax Levy Data," that lists the collections by individual districts, along with a chart of Arizona tuition rates. The last page of the handout is a chart entitled "Summary of Bonds Issued and Retired and Other Debt," and a table highlighting the equalization aid payouts. She highlighted her presentation with accompanying slides as outlined in Attachment B.

Ms. Johnston continued her slide presentation focusing on university funding (Attachment C). She commented this particular funding portion includes: building renewal, operations, and Proposition 301, and explained the various segments. Regarding enrollment growth funding, Ms. Johnson pointed out that neither Arizona State University (ASU) East nor ASU West qualifies because the protocol is a 5,000 or more full-time student equivalent. Since those universities have not reached that level, they are not included in the enrollment growth numbers. Senator Cirillo stated that this issue becomes a problem as far as introducing any new programs in those universities because funds would not be available early enough. He said he would like the Committee to address that problem.

Senator Solomon raised the issue of distance learners, and asked whether those students are counted differently than full-time campus students. Ms. Johnson responded that she would check into that issue. Senator Solomon stated she would also like to have information regarding the cost of teaching a distance learner as compared to providing all course work on campus.

Mr. Hunter stated it is his understanding that it depends not on the grade level of the student, but rather the courses the student is taking and that the credit hours count towards the full-time equivalent calculation.

Ms. Johnston continued her presentation and described the Proposition 301 funding portion.

Senator Cirillo commented he would like the Committee to give thought to the situation of State aid to the universities versus tuition received by those universities. He said he would like to have recommendations on that issue. Senator Solomon stated she would also like to have information on distance learning in connection with community colleges, and how it affects the formula.

Mr. Hunter stated that the enrollment growth formula for universities could result in decreases, and asked whether there are any instances where that has occurred. Ms. Johnston responded she would research that issue. Ms. Houseworth commented that she believes there have been examples over the years at each of the three universities where decreases have occurred. Mr. Hunter said the reason for his query is that there appears to be a policy contrast between the hold harmless element of enrollment growth funding for community colleges, which has been an issue for the Arizona Tax Research Association for some time. He said he would be interested in exploring the reasons for that policy difference. Ms. Johnston replied she would consult with JLBC to research that issue as to whether there was any legislative intent.

Senator Cirillo stated he would like to hold two additional meetings of the Committee. He said he would like the members to review the materials presented today and to forward any questions or comments to him a week prior to the next meeting for discussion purposes. He announced the next tentative meeting date is November 7, from 3:00 p.m. to 5:00 p.m. He indicated the Legislature is scheduled for a Special Session on November 13.

Senator Solomon stated that other committees have met over the past several years and have discussed funding formulas. She believes it would be helpful to the members to be able to review the prior information. Senator Cirillo mentioned that a presentation will take place at the next meeting with respect to community colleges. He said attempts will be made to secure presentations covering the other education areas.

Mr. Hunter stated last summer a special education ad hoc committee was formed and the funding formulas for K-12 and the "A" and "B" weights were scrutinized. He believes it would be valuable to review the conclusions of that particular committee's findings. He said Representative Huppenthal was the Chair of the committee at that time.

Ms. Johnston distributed the handouts from JLBC for the members to review regarding community colleges and universities (Attachments D and E).

There being no further business, the meeting adjourned at 2:30 p.m.

Respectfully submitted,

Wany L. De Michele
Nancy L. DeMichele, Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115)

Attachment E

### **ARIZONA STATE LEGISLATURE**

### OPEN TO THE PUBLIC

### Senate Ad Hoc Committee on Education Funding Formulas

Date: Wednesday, November 7, 2001

Time: 3 to 5 p.m.

Place: Senate Hearing Room 1

### **AGENDA**

- 1. Call to Order
- 2. Summary Presentations
  - K-12 Funding Chuck Essigs, Arizona Department of Education
  - Community College Funding
     Jack Lunsford, Maricopa County Community Colleges
  - University Funding
     University Representatives
- 3. Review Member Recommendations on Funding Formulas
- 4. Discussion
- 5. Public Testimony
- Plan Next Meeting
- 7. Adjourn

#### Members:

Senator Edward Cirillo, Chair

Senator Ruth Solomon, Member

Ms. Louise Houseworth, Arizona Board of Regents

Mr. Michael Hunter, Arizona Tax Research Association

Ms. Kristen Jordison, Arizona State Board for Charter Schools

Dr. Stephen Lawton, Parent Representative

Mr. Scott Thompson, Arizona Department of Education

Ms. Mary Jo Saiz, State Board of Directors for Community Colleges of Arizona

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#### ARIZONA STATE LEGISLATURE

### SENATE AD HOC COMMITTEE ON EDUCATION FUNDING FORMULAS

Minutes of the Meeting Wednesday, November 7, 2001 3:00 p.m. SHR1

#### Members Present:

Senator Edward Cirillo, Chair Ms. Louise Houseworth

Mr. Michael Hunter

Ms. Kristen Jordison

Dr. Stephen Lawton

Mr. Scott Thompson

Ms. Mary Jo Saiz

### Members Absent:

Senator Ruth Solomon

### Staff:

Kimberly Yee, Senate Education Research Analyst

### TAPE 1, SIDE A

The meeting was called to order at 3:05 p.m. by Chairman Cirillo and attendance was noted.

Senator Cirillo stated there would be presentations from the three levels of education.

Chuck Essigs, Assistant Superintendent of Business, Mesa Unified School District, distributed handouts relating to school finance (Attachments A and B). He stated that the current school finance system was developed in 1978 and 1979. The new system was put into place in 1981. It was designed to equalize spending and to control property taxes. They also wanted to reduce incentives and penalties for special education students. Arizona's history of school spending is similar to the rest of the country. More State monies go into schools to help equalize the tax program. Arizona has really restricted expenditure controls. The school districts take the number of students times what the State says is the amount that should be spent and that equals what they spend. When the current law was passed in 1980-81 school year, the

Legislature wanted to increase the authority of the school boards. The governing board has a lot of authority as to how the dollars are spent.

In response to Mr. Hunter, Mr. Essigs stated that the current budget is based upon the number of students from the previous school year.

Mr. Hunter stated that the charter schools do not have the year lag and feel a more immediate impact from growth or decline.

Dr. Lawton asked if they spend more on special education than general education. Mr. Essigs stated that if you poll school districts they would say that they do.

Senator Cirillo asked for a rough estimate as to how much districts switch their funding between regular and special education. Mr. Essigs answered it is approximately five percent.

Mr. Essigs stated that there are equalization issues. There is disparity around the State in property taxes. When a school district spends money that is not equalized through the formula, there will be disparity in taxes. The overall formula is sound and working relatively well in equalization. Senator Cirillo commented that this formula is recognized across the country as one of the better ones.

Mr. Thompson questioned the calculation of student attendance. Mr. Essigs answered that school districts are paid for their membership the first 100 days of the school year.

Senator Cirillo asked if the regional concept could be applied to the non-English speaking students. Mr. Essigs stated that it would be harder because all of the districts have an equal interest and each school district would be different for this application.

Senator Cirillo asked about the Capital Outlay Revenue Limit (CORL). Mr. Essigs stated that he focused mainly on the maintenance and operation (M&O) part of the budget. The Capital Outlay Revenue Limit (CORL) is similar to the M&O in that it is capital monies generated per pupil. It is not weighted for special education and non-special education. This has changed since the enactment of Students First. The State now provides money for building renewal and the building of new schools. Senator Cirillo asked if this is the time to cut this out of the K-12 formula or should the School Facilities Board handle it. Mr. Essigs stated that the School Facilities Board is doing all that they can do.

In response to Mr. Hunter, Mr. Essigs stated that the vast majority of the CORL dollars are in M&O. He stated that building renewal and soft capital money will keep the schools capital facilities adequate.

Dr. Lawton stated that there are different funding levels for very small districts and schools. Mr. Essigs stated that the reason for the higher weight for smaller school

districts is that the economy's scale is reversed. Smaller school districts get a higher dollar amount because it cost them more to operate. It is an incentive to stay small. He further commented that there are small districts in Maricopa County.

Mr. Hunter noted that the small school weights are similar to special education weights. It is also available to charter schools. The problem is the small school adjustment, not the small school weight. There are approximately 50 school districts that levy outside of their budget limits using the small school adjustments. They are accessing their local property tax in varying degrees. This results in taxation inequities and per pupil spending inequities. The problem is when the basic education needs are being funded inequitably because of the value of property.

Martin L. Shultz, Vice-President Government Affairs, Arizona Public Service, testified that the system of finance in Arizona is one of the most complex. There is nothing that makes less sense from a fiscal standpoint than the local finance system that is embedded on top of the local control. From the State perspective, we are paying for school financing and construction in large measure out of a revenue stream at the State level, not local taxes. However, there has been a downturn in those taxes, plus an upturn in the needs. Due to this disparity, the Legislature is considering bonding. Currently the State is building schools with ongoing revenue from the State coffers. The student enrollment is going to go up substantially. There will also be a greater concentration in the urban area. Dollars available per student range from \$4,000 per student in certain school districts up to \$14,000 to \$20,000. If you divide the number of students into the total dollars that a school district has available from all sources, the money per pupil is approximately \$8,000. This is unequal and puts some districts at a disparity. He suggested consolidating school business functions. For example, most school districts who are not consolidated have their own transportation. Most school districts operate from a business standpoint autonomously.

Jack Lunsford, Director of Government Relations and External Affairs, Maricopa Community Colleges, discussed the history of community college state aid funding in Arizona (Attachment C). He stated that the State owns all of the buildings. They are the only political subdivision in the State that does not own its own real property. So when a district bonds for that property and acquires land, the title goes to the State. He further went on to explain the funding formula established in 1962 and that the equalization aid was authorized. He further explained from the handout some significant changes and future issues.

### Tape 1, Side B

Mr. Hunter complimented Mr. Lunsford for the presentation. He stated that when the State Board of Education adopted the rule on dual enrollment, he testified in opposition to the rule. However, there was significant movement in the right direction. A distinction needs to be made between vocational education and academic courses. They are still funding students for high school credit and for community college credit as

if they were two students. The State is working collaboratively on this dual enrollment issue.

Mr. Lunsford commented that a full-time student equivalent (FTSE) is a FTSE. The only distinction is that open enrollment is counted as if there is no time difference as to whether it is offered in a semester or whether it is offered as a training block because the business wants it. In terms of dual enrollment, the distinction is clear. The school gets paid for students that are there for four hours. If the student is there for five or six hours, they do not get another dime for it. If there are costs incurred, that is a distinction that has merit.

Mr. Hunter commented that the Arizona Tax Research Association (ATRA) is going to continue to call for reform of equalization assistance. They are not equalizing Eastern Arizona College with other rural community college districts. Those who fall below the average get equalization assistance depending upon how far away they are from the average. It is not based on student need or student growth. Mr. Lunsford commented that the issue is money. If all counties received equalization, it would be about \$12 million to \$13 million. It is a public policy issue that the Legislature needs to address in terms of community college finance.

Greg Fahey, Associate Vice-President for Government Relations, University of Arizona, presented a handout on Education Funding Formulas (Attachment D). He stated that the basic purpose of Arizona Board of Regents (ABOR) 22:1 enrollment growth is for every 22 FTE students, you get a faculty member. The purpose is to provide for the marginal funding to the universities for the marginal costs related to growth in student enrollment. He further explained some issues presented on his handout. The formula does not meet the needs of a mature campus. He presented the history from the handout. The formula was last updated in 1987. commented from his handout the differences of the Arizona University system 22:1 enrollment growth formula comparing the ABOR formula and Joint Legislative Budget Committee staff recommendations. He commented that the building renewal formula purpose is to provide uniform, consistent funding for the repair or renovation of all or part of a building and supporting infrastructure that will result in maintaining the life of the building. He concluded his presentation by stating that the existing formulas do not address the market competition concerns of mature campuses and start up needs of developing campuses.

Mr. Hunter questioned the revenue stream for Proposition 301. After the debt service payment for the revenue bonds for K-12, the \$70 million is taken out of sales tax and 12 percent goes to the universities. He asked what actions will be taken if the revenues come in short. Mr. Fahey stated they have already taken some action. The University of Arizona (UofA) has put into place a ten percent holdback.

Ms. Houseworth agreed with Mr. Fahey.

In response to Dr. Lawton's question on mature campuses, Mr. Fahey stated that they have looked at a number of things. They will be looking at the funding from other states. He further stated that they are not funded for inflation.

Senator Cirillo distributed his handout on "Education Funding Recommendations" (Attachment E). He asked that the Committee's recommendations be given to him prior to the next meeting.

In response to Dr. Lawton, Senator Cirillo stated that they are trying to create a seamless education system so a student can go from one system to another and know in advance what courses they need to take.

Mr. Hunter illustrated that there are common areas in the university funding and the community college system. One of the big contrasts is the access to the property tax that community colleges have. The only debt they have access to at the university level is revenue bonding. They cannot go to voters and approve general obligation bonding. Revenue bonding can sometimes become an easier mechanism to fund smaller projects. The backfill can result in an increase in property taxes. Yavapai College and Pinal County Community College District were increasing their primary rate in order to make up for the loss in their budget for dedicating their tuition to the revenue bonding. This is very close to a constitutional issue of levying property taxes for debt, which the Constitution states you must have voter approval.

Senator Cirillo stated that K-12 is basically a city and neighborhood entity. Community colleges are a county entity and universities are a statewide entity. That is how the systems develop differently.

There being no further business, the meeting adjourned at 4:50 p.m.

Respectfully submitted,

Cichber Rennedy

Debbee Kennedy

Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center. Room 115.)

Attachment F

### ARIZONA STATE LEGISLATURE

### INTERIM MEETING NOTICE OPEN TO THE PUBLIC

### Senate Ad Hoc Committee on Education Funding Formulas

Date:

Monday, December 3, 2001

Time:

3 to 5 p.m.

Place:

Senate Appropriations Room 109

### **AGENDA**

- 1. Call to Order
- 2. Review of Funding Recommendations
- 3 Discussion
- 4. Public Testimony
- 5. Consideration of Funding Recommendations
- 6. Adjourn

### Members:

Senator Edward Cirillo, Chair Senator Ruth Solomon, Member

Ms. Louise Houseworth, Arizona Board of Regents

Mr. Michael Hunter, Arizona Tax Research Association

Ms. Kristen Jordison, Arizona State Board for Charter Schools

Dr. Stephen Lawton, Parent Representative

Mr. Jaime Molera, Superintendent of Public Instruction, Department of Education

Ms. Mary Jo Saiz, State Board of Directors for Community Colleges of Arizona

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### ARIZONA STATE LEGISLATURE

### SENATE AD HOC COMMITTEE ON EDUCATION FUNDING FORMULAS

Minutes of the Meeting Monday, December 3, 2001 3:00 p.m. Senate Hearing Room 109

#### Members Present:

Senator Edward Cirillo, Chair Senator Ruth Solomon Ms. Louise Houseworth Mr. Michael Hunter Ms. Kristen Jordison Dr. Stephen Lawton Mr. Scott Thompson Ms. Mary Jo Saiz

#### Staff:

Kimberly Yee, Senate Education Research Analyst

### TAPE 1, SIDE A

The meeting was called to order at 3:05 p.m. by Chairman Cirillo and attendance was noted. For additional attendees, see sign-in sheet (Attachment A).

Senator Cirillo stated that he distributed his recommendations to the Committee (Attachment B). He also distributed recommendations from Dr. Lawton (Attachment C), Mary Jo Saiz (Attachment D), Louise Houseworth (Attachment E) and Mr. Hunter (Attachment F).

Senator Cirillo stated that they are looking for long-term changes in funding formulas. The goal is to have a bill in the Legislature on these recommendations. He further stated his recommendations. Please see Attachment B.

Mr. Hunter commented that it is not often when a local jurisdiction is bumping up against some limit, whether it is levy or expenditure. The levy and expenditure limits work well in tandem when a jurisdiction is bumping into one and not the other. He stated that he could not be in support of Senator Cirillo's first recommendation to allow community colleges to increase their expenditure capacity.

Senator Cirillo commented as a minimum there should be a period of time when both of the limits are addressed. Every so many years these limits should be examined.

Mr. Hunter stated that the expenditure limits increase by inflation and population. The community colleges have the ability to ask for a public vote, but have not availed themselves of those provisions by accessing property tax through secondary taxes. He suggested that they look at the growth and expenditure capacity.

Mary Jo Saiz said that the State Board would agree that the expenditures do need to be examined and the colleges allowed to address the issue of expenditure limitations.

Senator Cirillo asked if this should be done county by county rather than statewide. Ms. Saiz stated that some counties do not have the problem, but the majority of them do address this issue every year. It would probably be more statewide.

Senator Solomon asked what factors other than inflation and population growth would impact the need to increase expenditure limits.

Bruce Groll, Joint Legislative Budget Committee (JLBC), stated that those are the factors that drive the formulas. The other factor to look at is the expenditure limit capacity use and levy limit capacity use. In terms of expenditure capacity, no one is at 100%. There are five districts that are at 100% of the levy capacity. The levy and expenditure capacity have the option of going to the voters for a secondary levy for a two to seven year period.

Mr. Hunter asked if there are school districts that have plenty of levy capacity, but are approaching their expenditure capacity. Mr. Groll answered with an attachment titled "Arizona Community College System Tax Levy and Expenditure Capacity" (Attachment G).

Ms. Saiz stated that one of the factors in the growth part of equalization is the higher education price index for colleges and universities is usually a couple of points higher than the growth rate for normal inflation. Local people have control over the levy limit for colleges as opposed to the expenditure limit.

Senator Solomon asked if a district is at 100% of its levy limit and close to 100% of its expenditure limit and their population continues to increase, is there any other alternative rather than going to the voters. Mr. Groll replied if the population increases, the maximum amount should rise accordingly. Senator Solomon asked what percentage of the Full Time Student Equivalency (FTSE) funds the operation in total. Mr. Groll stated on average it is 25%. Senator Solomon asked if they would be 75% short as the population increases. Mr. Groll stated that tuition and fees also account for 25%, so you have 50% driven by the local property tax. Senator Solomon stated that in times of an economic downturn, the population might increase without the property base increasing. Mr. Groll stated that is possible.

Ms. Saiz stated that tuition and fees are not part of the expenditure limitation calculation.

Mr. Hunter stated that when the levy and expenditure limits were put in place, they were given a reasonable formula to recognize growth that would occur. It is the audited FTSE number that is the variable in the expenditure limit.

Senator Cirillo stated that the formula may be adequate for variable costs but not for fixed costs. The formula does not recognize expansion of existing campuses.

Mr. Hunter commented that new campuses are locally funded.

Dr. Lawton stated that if more tax money is to be devoted to education, you have to decide where in the spectrum are the greatest needs. One of his concerns is the mission of the community college system. Some campuses are looking into developing a charter school.

Jack Lunsford, Maricopa Community Colleges, stated that the funding system was put in place in 1980. Most of the focus was on the tax side and K-12 funding. The budget process was already in place in the various districts. Some of the districts were freezing their budgets. There are a tremendous number of inequities that are embedded in the funding formulas.

Senator Cirillo asked if the formula is adequate to cover expenditure for expanding an existing campus. Mr. Lunsford stated that it is not. For example, Maricopa County has issued the final issuance of the bond proceeds from 1994. In order to make sure there is adequate funding to open these facilities, they have set aside a portion of their operating budget.

Senator Cirillo stated that he would like to sit down with Mr. Lunsford and Mr. Hunter to discuss this issue.

In response to Senator Cirillo's K-12 recommendation to limit funding to Maintenance and Operation (M&O), Senator Solomon stated that currently there is no oversight to the School Facilities Board nor is there any appropriations power with regard to School Facilities Board money on the part of the Legislature. Senator Cirillo stated that is correct, but he hopes to change that.

Senator Cirillo recommended that the Committee try to simplify the reporting of M&O. He further stated that the federal funds for schools should be subject to appropriation by the state.

Mr. Hunter stated that Senator Cirillo's recommendations are tempting.

Senator Cirillo stated that a basic problem is that local control is almost impossible when somebody else is providing the money.

Mr. Hunter commented that there is a lot of money that does not fall into categories.

Senator Cirillo stated that what he wants to get away from is the tedious effort that the school districts are doing in breaking down a principal. There is a line item for principal's salaries, which would go under administration. Classroom funding would be for teachers, books, computers, etc.

Senator Cirillo stated that if a student attends two grade levels at different institutions, there would need to be a Document of Understanding to address funding.

Kristen Bolini, Arizona Community Colleges Association, stated that there is a new rule that has been promulgated by the State Board for Community Colleges. It is at the Attorney General's office waiting approval. The new rule requires that a Memo of Understanding between the high school district and the community college district be entered into prior to any dual enrollment courses. All of the school districts that have dual enrollment programs have already entered into the Memo of Understanding.

Senator Cirillo stated that building renewal should be at a fixed 25%.

Senator Solomon stated that her concern is that when you fix a number, it is doing harm. She would rather have a fixed number over a ten-year period.

Louise Houseworth agreed with Senator Solomon and noted she also appreciates the interest to establish a more consistent funding mechanism. She stated that a fixed 25% is too low. Also, rather than a fixed amount, it could be a minimum. It could go up to 100% if funding is available.

Senator Cirillo suggested that they make the floor 33%.

Senator Solomon suggested an average number like 50% for the floor.

Senator Cirillo stated that it would be a floor of 40%.

Senator Cirillo stated another recommendation that would provide more funds at startup of community colleges and universities. The present formulas do not adequately fund this.

Mr. Lunsford stated that if they took all districts into consideration, this would be of value.

Ms. Saiz agreed that the start-up costs for the rural colleges is a large burden. The State helps out campuses with \$1 million, but you can build very little with \$1 million.

Curriculum is very expensive to develop and programs that are needed in the rural areas are very expensive to get together.

Senator Cirillo stated that some curricula should be eliminated and then put in the new curricula that are required.

Mr. Lunsford stated that is being done. There has to be a minimum number of students to have in a class. Rural colleges do not have the availability for resources to fund the kinds of programs like health care. The start-up costs do not withstand the need to look at expenditure and levy limits.

Ms. Houseworth agreed with the comments and is supportive of the recommendation.

Pete Gonzales, State Board Executive Director, stated that he supports Senator Cirillo's recommendation on start-up funds. There are a few counties in the state that do not have community college districts established. A commitment on behalf of the State will ensure the possibility of these ventures.

Ms. Houseworth stated that the problem with the existing formulas is that they have not been consistently funded. She further stated her recommendations from her handout (Attachment E).

In response to Dr. Lawton, Senator Cirillo agreed that there would be a band of whether you went up or down and the funding would not be affected.

Ms. Houseworth stated that the current formula is based on a three-year rolling average so it does take into consideration a trend or multiple years.

Senator Cirillo stated that there would still be an envelope for the three-year average. If the three-year average turned out to be a number within the agreed envelope, there would be no affect on funding, whether it goes up or down.

Mr. Fahey stated that he would have to caucus among the universities before they could respond.

Senator Cirillo stated that the envelope would be a percentage of the size of the institution.

Mr. Fahey stated it was worth looking at.

Ms. Saiz commented that the colleges are funded in arrears so the effect of taking away money will be felt in a year that you would have an increase. The decline in enrollment usually comes in rural areas.

Mr. Hunter stated that they recommend the community colleges be funded more like universities. The rolling average is providing some stability. However, in some instances where there are declines, it would reflect in the funding at least for the per student basis. The rolling average idea is one with merit.

Senator Cirillo commented that if the rolling average shows a decrease, the funding should go down.

Mr. Hunter stated that is correct. He commented that a band of stability for a three-year period would make sense. Eventually the rolling average would result in some declines that would be reflective of the declines in student enrollment.

Ms. Houseworth stated that the recommendation would be to only fully fund the existing 22:1 enrollment growth formula.

Mr. Hunter commented that if the Legislature sets a formula, the Legislature has the position to appropriate the monies to fully fund a formula. It is not a good idea, however, to earmark money and put it in a lockbox. It should be done with extreme caution.

Senator Cirillo stated that if there is a formula, then it should be funded.

Mr. Hunter stated that if there are locked-in inflation guarantees in government budgets, it leads to tax increases. Citizens and taxpayers are not guaranteed inflation.

Senator Cirillo commented that inflation is a lot different than fully funding a formula.

Ms. Houseworth stated that the 22:1 enrollment growth formula addresses enrollment growth and the universities in the past have not received any funding if their enrollments are stable. If a main campus is reaching its enrollment limit and has not grown very much and does not receive the 22:1 enrollment growth formula, it does not really have a way to receive funding to increase the quality of the programs that are offered. There needs to be a way to fund to improve the quality of the university even if they are not getting enrollment growth.

Senator Cirillo stated that one way to do that is the salary surveys.

Ms. Houseworth stated that is being done with an annual personnel report.

Mr. Hunter concurred that it is the number of people employed and how much you pay them needs to be the benchmark to compare universities and colleges.

Dr. Lawton stated that some states go to tuition and fees in order to gain extra funds. The higher education report singles out several areas where the universities should specialize and make cases for special projects.

Ms. Saiz reported on her recommendations from her handout. Please see Attachment D. She commented that she can put together some language from the Task Force on Higher Education.

Senator Cirillo commented that all agencies, including community colleges, should do a five-year strategic plan.

Mr. Lunsford stated that a huge bureaucracy would be forthcoming as everyone would have to submit their strategic plan in the same format.

Senator Solomon stated that no one is interested in a one size fits all format and they do recognize that flexibility is critical.

Mr. Lunsford stated he liked the idea of a summary page.

Senator Cirillo commented that the five-year plan would only have to be updated every other year.

Dr. Lawton presented his recommendations to the Committee (Attachment C).

Senator Solomon asked if there is a problem with community college graduates finding space available at a university. She also asked if they lose the freshmen students from the universities, would it be his proposal that even though they are enrolled in the university, they go to the community college. Dr. Lawton stated that first year students would still have the option of going onto universities if they did not go to the community college. They would still have two choices.

Senator Solomon asked about the 50% of students who enter transfer programs at community colleges and then never go onto the university, and was wondering why this happens. Dr. Lawton stated there are many different characteristics of students and you want to maximize the chance that they succeed.

Senator Cirillo commented that people go to the community college because it is a much cheaper way to get started. If you charge them the university rate the first year they are in college, you will lose a lot of students. Dr. Lawton agreed.

Dr. Lawton stated that his concern is that there may be a lot of university students within the next ten years and the three universities could not expand quickly enough. There may be a rapid increase at the community college level.

Mr. Hunter stated that the community colleges are also a benefit to taxpayers. He would be concerned about losing the benefits by having multiple systems.

Senator Cirillo said the attempt is to try to create a seamless system of education. The system is managed by one group of people. He suggested that the report include trying to build a more seamless system for K-20.

Charlene Ledett, University of Arizona, addressed the issue of a common oversight entity. She stated that different missions require different oversight.

Mr. Lunsford suggested that the Committee look at the State of Kentucky and Florida in response to oversight issues.

Mr. Hunter stated his recommendations from Arizona Tax Research Association (ATRA) (Attachment F). Senator Cirillo stated that he wants to simplify the formula. Mr. Hunter agreed. Mr. Hunter stated that students are appearing in other schools and being counted as a dropout from another school. The same body is being counted by the state twice. ATRA feels that property tax issues with capital overrides and assessment ratios are important for accountability reasons. They feel that the State should take more of a role through the State Board in recognizing that some courses in the community colleges should be offered for extension programs instead of for credit. In summary, when looking at formula funding, one thing that really needs to be considered is how many students are actually funded and for what.

Mr. Molera stated that he is in support of the recommendations from the Governor's Task Force. He further stated that they are still funding in the basic formula. Also, there is no school sticking children in categories that do not make money. He does not know of any category that is getting overfunded in the State right now. He is excited about the current electronic system as they can tie test scores and other demographic information for students. It is a good accountability system. The Committee should be asking what the role of schools is in their community.

Senator Solomon stated that the recommendations with regard to the formula and accountability need to be addressed in the Education Committee with the Superintendent and the communities. She feels that it is beyond the scope of this Committee.

Senator Cirillo agreed. However, he would like to include these issues in the report as items that the Committee identifies and should be followed up with the Education Committee in regular session. Senator Cirillo stated that there would be one more meeting in January. A draft report will be sent prior to the meeting.

Mr. Lunsford stated that in 2001, 2002 and 2003, the Legislature funded community colleges in growth only. There were no supplemental or inflation dollars. The Committee is now contemplating reduction for community colleges for 2002 and 2003 and are essentially cutting the dollars that the Maricopa Community Colleges received for growth. This will not be a one-time cut. As the formula reads, this year's appropriation becomes next year's base. This means that the \$5 million going away

from Maricopa, for example, equates to about 4,300 FTSE over the biennium. He questioned if there will be another cut in a couple of years.

Barbara Robey, Director of Government Relations, Arizona School Boards Association, stated that they would like a true M&O study of the entire formula. Without adjustments to any formula on an ongoing basis, it will get out of whack. The M&O formula is definitely out of whack. Also, the Governor's Task Force has addressed some of the issues identified by Mr. Hunter in their recommendations, particularly the desegregation and excess utilities. They believe that the whole issue of assessment ratios is part of an overall discussion of the tax structure. It should not be addressed in isolation.

Dr. Sharon Hill, representing herself, stated that she has over 20 years experience in public schools, including as superintendent. She now consults with charter schools, private schools and school districts. She pointed out that funding should be simplified to any extent possible. School districts do not have sufficient flexibility. She is an advocate of fully funding the formulas. She urged the Committee to not consider changing the formulas to fit the amount of money available. Business is very supportive of fully funding education in the State.

Kimberly Yee stated that the Senate President put a repeal date on the Committee of December 31, 2001. Senator Cirillo stated that they would request a two-week extension.

There being no further business, the meeting adjourned at 4:50 p.m.

Respectfully submitted,

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Debbee Kennedy Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115.)

Hearing	Room No	. <u>1Ĉ</u>
Date:	15/3/01	
Time:	3-5pv	<b>\</b>

### MEETING OF COMMITTEE ON

### ADHOC: EDUCATION FUNDING FORMULAS

NAME	REPRESENTING	BILL NO.
Tracy Pytlakowski Linda Porental BARBARA ROBE! Charlem Ledet		
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Attachment A

Attachment G

### ARIZONA STATE LEGISLATURE

### INTERIM MEETING NOTICE OPEN TO THE PUBLIC

### Senate Ad Hoc Committee on Education Funding Formulas

Date: Tuesday, January 8, 2002

Time: 1 to 3 p.m.

Place: Senate Appropriations Room 109

#### **AGENDA**

- Call to Order
- 2. Review of Funding Recommendations
- 3 Discussion
- 4. Public Testimony
- Consideration of Funding Recommendations
- 6. Adjourn

### Members:

Senator Edward Cirillo, Chair

Senator Ruth Solomon, Member

Ms. Louise Houseworth, Arizona Board of Regents

Mr. Michael Hunter, Arizona Tax Research Association

Ms. Kristen Jordison, Arizona State Board for Charter Schools

Dr. Stephen Lawton, Parent Representative

Mr. Scott Thompson for Superintendent Jaime Molera

Ms. Mary Jo Saiz, State Board of Directors for Community Colleges of Arizona

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Senate Secretary's Office: (602)542-4231 (voice). Requests should be made as early as possible to allow time to arrange the accommodation.

### **ARIZONA STATE LEGISLATURE**

### SENATE AD HOC COMMITTEE ON EDUCATION FUNDING FORMULAS

### Minutes of the Meeting Tuesday, January 8, 2002 1 p.m., Senate Appropriations Room 109

#### Members Present:

Senator Edward Cirillo, Chair Louise Houseworth Dr. Stephen Lawton Scott Thompson Senator Ruth Solomon Michael Hunter Mary Jo Saiz

### **Members Absent:**

Kristen Jordison

#### Staff:

Kimberly Yee, Senate Education Committee Research Analyst

Chairman Cirillo called the meeting to order at 1:08 p.m. Attendees Sign-In Sheet is attached (Attachment A).

Senator Cirillo commented that this would be the last meeting of the Committee and that their final task would be to adopt the recommendations in the Annual Report (Attachment B). He asked for any comments or changes to the report that should be considered by the Committee.

Mr. Hunter noted that he would be able to support the majority of the recommendations, with an exception to the University section. He referred to the statement "fully fund the existing 22:1 enrollment growth formula," explaining that he is not opposed to fully funding the formula; however, a guarantee for funding is risky without knowing what future revenues will be. He suggested there should be some language to clarify that the formula is dependent on the revenue income.

Senator Cirillo replied that this is an annual report and not a bill. At such time there is legislation, he felt that would be when they would need to clarify the formula, taking the inflation factor into consideration to alleviate any problems in the budgeting process.

Ms. Houseworth suggested a change to the University section, recommending replacing a "fixed" rate for building renewal to a "minimum" rate.

Mr. Thompson referred to the first item under the K-12 section, noting that he is supportive of the examination of further simplification of K-12 maintenance and operations (M&O) budgets. However, he was not clear about the statement referring to

including funding categories for classroom support and administration, noting that they currently have those types of reports.

Senator Cirillo clarified that the suggestion is to minimize the number of reports and prepare a report with more summarized data.

Dr. Lawton questioned the first item under the Community Colleges section, suggesting there should be a clarification of the formula and what the implications are of eliminating that formula.

Ms. Saiz explained that the two items under the Community Colleges section may need additional review.

Senator Cirillo mentioned that some of the presidents of the community colleges are still reviewing the recommendations; therefore he will be holding for publication the annual report for a short time to gather their input.

Jack Lunsford, Maricopa Community Colleges, stated that he would try to clarify the area of "equalization." He pointed out that equalization has always been a formula which is viewed as a replacement for the inability of small districts to levy maximum amount of taxes to support a community college district. It came about after the formation of community colleges as districts because one of the districts did not meet the statutory requirements for assessed value in order to have a community college district. He emphasized that they are not equalizing spending among districts and between students, but are equalizing property tax burden. He suggested that is an important distinction and is akin to payments in lieu of taxes. In other words, the State offers a payment in lieu of the district's ability to raise sufficient tax revenue.

Dr. Lawton questioned if eliminating the formula meant there would no longer be a formula to determine how much money the State should transfer to community colleges.

Senator Cirillo suggested that the statement could be reworded to eliminate the current equalization formula and build it into the funding base. Mr. Lunsford replied that he is unsure if the community colleges would embrace that.

Bruce Groll, Joint Legislative Budget Committee (JLBC), explained that the equalization aid formula would be removed from statute; however, the base dollars which are approximately 2% of the total community colleges' funds and approximately 9% of the community colleges state general fund appropriation would be rolled into the operating base.

Mr. Hunter indicated that when the community college system was established and the formulas put into place, Eastern Arizona College became a district, but did not have the property value to be considered a community college district. They were grandfathered in. That allowance has prevented other community college districts being formed in other counties. The equalization assistance is the reason that the Legislature has been

cautious in allowing the unorganized counties to form community college districts. The Legislature has only permitted provisional community colleges in Santa Cruz, Greenlee, Graham, and Apache and they are not allowed equalization assistance. In explanation, he pointed out that equalization assistance is equalizing levies to the taxing authority, noting that there is little benefit to equalizing tax burdens on individual taxpayers. He suggested that if they continue to have equalization assistance, it probably should be renamed to an in lieu of property tax appropriation.

Mr. Hunter stressed that they are not talking about taking away any monies from the community college, but rather rolling it into their base operating formula which would carry forward annually. Any growth in the community college districts would be reflected in the operating budget. Mr. Lunsford suggested that they should review the formula rather than eliminating it.

Mr. Lunsford noted that in Proposition 106, cities, towns, and counties were authorized to create an alternative expenditure limit. Every four years, they must go to the voters to explain the expenditure limit and the voters get a chance to vote on it. The community colleges were not included in that proposition. He recalled that there is language in the Constitution that indicates that any political subdivision may adjust the base limit by the affirmative votes of two-thirds of it members (in the case of community colleges that would be a 4:1 ratio) of the governing board or by an initiative of the citizens. He suggested that providing an alternative expenditure limit would be another good option for districts.

Senator Cirillo pointed out that making such a change would require a constitutional change. He suggested that if they do that with community college districts, other districts may want to do it. Mr. Lunsford said that if they look at the broad range of subdivisions that are in the law and Constitution, barring K-12, the only other areas that would want to do this would be special districts. Senator Cirillo indicated that he would have no problem going to the voters with this change.

Mr. Hunter noted that the expenditure limits do grow by population plus inflation and is not sure that it is not working sufficiently. Mr. Lunsford suggested that the structure of the expenditure limit override might be different in various districts. Some districts may prefer the structure of the alternative expenditure limit. He stated that the local elector should make that determination.

Senator Cirillo suggested that they combine the two options in their recommendations; encouraging districts to use the option they already have for levy and expenditure overrides while pursuing a constitutional change to allow an alternative method.

Senator Solomon said that she feels it is up to the voters to decide how they want to support education in their communities.

Dr. Lawton noted that traditionally community colleges have been considered more a State responsibility than a local property taxpayer responsibility. He stated that his

preference would be that the State fund new items as needed, rather than rely on the local property taxpayer.

Senator Cirillo commented that the property tax system has evolved and should be taxed for education. Mr. Lunsford replied that the funding structure varies state by state. Some community colleges are state funded and governed. However, Arizona had decided that the public policy for funding community colleges would follow in the path of the K-12 policy, since they were an outgrowth of K-12. Currently, two-thirds of the university graduates have community college credits. He suggested they have evolved from technical community colleges to higher education.

Ms. Saiz remarked that current studies show that the mix of how Arizona's community colleges are funded is good compared to how community colleges are funded in other states.

Mr. Hunter mentioned that while there have been proposals in the past to eliminate property taxes statewide, the Arizona Tax Research Association (ATRA) has never supported the elimination of property taxes.

Kristen Boilini, Arizona Community Colleges Association, declared that she represents all ten presidents and trustees of the districts across the State. She noted some issues and concerns based on the recommendations. She referred to the items that fully fund growth and inflation for the universities and hoped that the Committee would extend that to the community colleges. She indicated that their current formula has a component for inflation, but has not been effectively funded by the State in the past seven years and there have been times when enrollment has not been fully funded. She pointed out that they are funded two years in arrears. She said that she respectfully requests a statement for fully funding growth and inflation for community colleges. She added that they will be talking to the presidents regarding the "hold harmless" provisions, because it has been an important component in protecting the community colleges, particularly when there are downturns in the economy and reductions in state funding. It has helped the smaller districts where there is more of a variance in growth, to retain some of those funds so that they can cover their fixed cost and continue to provide education.

Ms. Boilini then discussed the recreational courses, noting that there are some offered without credit. She assured the Committee that the State does not pay for any noncredit course. However, there are some recreational courses that are part of degree programs. She suggested they need to be careful what is targeted for nonpayment, so that the recreational courses that are part of a program are not eliminated.

Dr. Lawton pointed out that some of the courses referred to as recreational may be taken as a credit for students who are going forward in their education, but others take the same courses specifically for recreational purposes. It is not easy to clarify which courses are only recreational courses.

Ms. Boilini explained that all of the curriculum offerings and decisions made by the community colleges are reviewed by the Arizona State Board for Community Colleges, which is the statewide board accountable for tuition, curriculum, and other aspects of the districts.

Kimberly Yee, Senate Education Committee Research Analyst, summarized the changes to the recommendations.

There was continued discussion regarding the recreational courses, who pays for them, and perhaps renaming the category. Dr. Lawton suggested calling them "personal interest" courses. Mr. Hunter mentioned that the State is paying for many of the recreational courses. Mr. Thompson reminded the Committee that the Arizona Association of School Business Officials (AASBO) is responsible for paying the instructors who conduct these recreational courses. Mr. Hunter pointed out that if students are receiving credit, the numbers are submitted to the State for payment.

Senator Cirillo moved to approve the recommendations as submitted in the Annual Report. The motion CARRIED with a roll call vote of 7-0-1 (Attachment 1).

Mr. Hunter asked what the process will be after the community college presidents review the report and may have suggested changes to the recommendations. Senator Cirillo responded that no significant changes can be made without the vote of the Committee. However, if there are some language changes that do not alter the content of the report, those could be made without a vote.

There being no further business, the meeting was adjourned at 2:16 p.m.

Respectfully submitted,

Carol Dager

Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115.)

### SENATE AD HOC COMMITTEE ON EDUCATION FUNDING FORMULAS

### ARIZONA STATE LEGISLATURE

Forty-fifth Legislature - First Regular Session

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Louise Houseworth	X				
Michael Hunter	X				
Kristen Jordison			X		
Stephen B. Lawton	X				
Mary Jo Saiz	X				
Scott Thompson	X				
Senator Solomon	X				
Senator Cirillo, Chairman	X				
Committee Secretary	aral &	Enge,	2	<b>Date</b> Janu	ıary 8, 2001

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## MEETING OF COMMITTEE ON APHOC COMMITTEE ON EPUCATION FUNDING FORMULAS

NAME	REPRESENTING	BILL NO.
BARBARA ROBEY	Az SCHOOL BOS ASSOC.	
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Attachment A